Q3 2014 Results Conference Call

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements made by BCE's President and Chief Executive Officer and Executive Vice-President and Chief Financial Officer during BCE's 2014 third quarter results conference call, as reflected in this transcript, constitute forward-looking statements. These forward-looking statements include, without limitation, statements relating to our 2014 financial guidance (including revenues, Adjusted EBITDA, capital intensity, Adjusted EPS and free cash flow), our business outlook, objectives, plans and strategic priorities, our network deployment plans, the Bell Aliant note exchange proposal, certain strategic and financial benefits expected to result from the Bell Aliant privatization and from the note exchange proposal, the integration of Bell Aliant into BCE's national operations, and other statements that are not historical facts. Forward-looking statements are typically identified by the words assumption, goal, guidance, objective, outlook, project, strategy, target and other similar expressions or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, seek, should, strive and will. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws and of the United States Private Securities Litigation Reform Act of 1995.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements and that our business outlook, objectives, plans and strategic priorities may not be achieved. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against relying on any of these forward-looking statements. The forward-looking statements contained in this transcript describe our expectations as of November 6, 2014 and, accordingly, are subject to change after such date. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this transcript, whether as a result of new information, future events or otherwise. Except as otherwise indicated by BCE, forward-looking statements do not reflect the potential impact of any non-recurring or other special items or of any dispositions, monetizations, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after November 6, 2014. The financial impact of these transactions and non-recurring and other special items can be complex and depends on the facts particular to each of them. We therefore cannot describe the expected impact in a meaningful way or in the same way we present known risks affecting our business. Forward-looking statements were made during BCE's 2014 third quarter results conference call for the purposes of providing information concerning the Bell Aliant note exchange proposal and the expected impacts of the Bell Aliant privatization, and of assisting investors and others in understanding certain key elements of our expected financial results, as well as our objectives, strategic priorities and business outlook, and in obtaining a better understanding of our anticipated operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Material Assumptions

A number of economic, market, operational and financial assumptions were made by BCE in preparing certain forward-looking statements contained in this transcript, including, but not limited to:

Canadian Economic and Market Assumptions

- *growth in the Canadian GDP of 2.3% in 2014, based on the Bank of Canada's most recent estimate, a ten basis point increase compared to an earlier estimate of 2.2%*
- *a faster pace of employment growth compared to 2013*
- *a sustained level of wireline and wireless competition in both consumer and business markets*
- *higher, but slowing, wireless industry penetration driven by the increasing adoption of smartphones, tablets and other 4G devices, the expansion of LTE service in non-urban markets, the availability of new data applications and services, as well as population growth*
- *a softer advertising market for Bell Media*

Assumptions Concerning our Bell Wireless Segment

- *higher, but slowing, wireless industry penetration in Canada*
- *maintaining Bell's market share of incumbent wireless postpaid net activations*
- *continued adoption of smartphone devices, tablets and data applications, as well as the introduction of more 4G LTE devices and new data services*
- *our ability to monetize increasing data usage and customer subscription to new data services*
- *further expansion of our 4G LTE wireless network in rural areas and in more urban markets across Canada*
- *ongoing technological improvements by handset manufacturers and faster data network speeds that allow customers to optimize the use of our services*
- *no material financial, operational and competitive consequences of adverse changes in regulations affecting our wireless business*

Assumptions Concerning our Bell Wireline Segment

- *increasing wireless and Internet-based technological substitution*
- *aggressive residential service bundle offers from cable TV competitors in our local wireline areas*
- *stabilizing residential NAS line erosion rate as we leverage our broadband investment in Fibe TV to drive three-product household penetration, increase our MDU market share, and generate higher pull-through attach rates for our residential Internet and Home Phone services*
- *higher revenue per household and flow-through of market-based price increases across residential products from increasing penetration of three-product households*
- *faster pace of employment and economic growth compared to 2013*
- *continued business customer migration to IP-based systems*
- *ongoing competitive price pressures in our residential, business and wholesale markets*
- *ability to realize cost savings from management workforce attrition and retirements, call centre efficiencies, field service productivity improvements, reduction in supplier contract rates, lower print and mail costs, content cost management and reducing traffic that is not on our own network*
- *growing consumption of OTT TV services and streaming video, projected growth in TV Everywhere as well as the proliferation of devices, such as tablets, that consume vast quantities of bandwidth, will require considerable ongoing capital investment.*

Assumptions Concerning our Bell Media Segment

- *softer advertising market*
- *escalating costs to secure TV programming and sports content*
- *ability to successfully acquire highly-rated programming and differentiated content*
- *market rates for specialty content generally increasing*
- *building and maintaining strategic supply arrangements for content on all four screens*
- *full realization of cost synergies from the integration of Astral into Bell Media*
- *no material financial, operational or competitive consequences of adverse changes in media regulation*

Assumptions Concerning our Bell Aliant Segment

- *faster pace of employment and economic growth compared to 2013*
- *competitive activity in both consumer and business will continue to be intense*
- *wireless substitution for wireline services will increase in Bell Aliant markets, but is expected to lag behind other regions of Canada*
- *NAS net decline stabilizing*
- *steady demand for FibreOP service driving Internet and IPTV customer acquisition at similar levels as 2013*
- *cost reductions achieved through productivity initiatives will continue, largely offsetting cost increases associated with growth in IPTV customers and associated TV content costs and normal inflationary pressures*

Financial Assumptions Concerning Bell (Excluding Bell Aliant)

The following constitute Bell's principal financial assumptions for 2014:

- *the maintenance of a relatively stable consolidated Adjusted EBITDA margin;*
- *increasing wireless Adjusted EBITDA contribution and margin expansion;*
- *an improving year-over-year rate of decline in wireline revenue and Adjusted EBITDA;*
- *Bell's total post-employment benefit plans cost to be approximately $310 million, based on an estimated accounting discount rate of 4.9%, comprised of an estimated above Adjusted EBITDA post-employment benefit plans service cost of approximately $220 million and an estimated below Adjusted EBITDA net post-employment benefit plans financing cost of approximately $90 million;*
- *total pension plan cash funding of approximately $350 million;*
- *cash taxes of approximately $600 million;*
- *net interest expense of approximately $775 million, instead of $750 million;*
- *net interest payments of approximately $775 million; and*
- *working capital changes and severance and other costs of approximately $175 million.*

Financial Assumptions Concerning BCE

The following constitute BCE's principal financial assumptions for 2014:

- *BCE's total post-employment benefit plans cost to be approximately $390 million, including approximately $80 million for Bell Aliant, comprised of an estimated above Adjusted EBITDA post-employment benefit plans service cost of approximately $280 million and an estimated below Adjusted EBITDA net post-employment benefit plans financing cost of approximately $110 million;*
- *depreciation and amortization expense approximately $115 million higher compared to 2013;*
- *net interest expense of approximately $925 million, instead of $900 million;*
- *tax adjustments (per share) of approximately $0.05, instead of $0.04;*
- *an effective tax rate of approximately 26%;*
- *non-controlling interest of approximately $220 million, instead of $280 million;*
- *average common shares outstanding of approximately 794 million, instead of 778 million; and*
- *an annual common share dividend of $2.47 per share*

The foregoing assumptions, although considered reasonable by BCE on November 6, 2014, may prove to be inaccurate. Accordingly, our actual results could differ materially from our expectations as set forth in this transcript.

Material Risks
Important risk factors that could cause our assumptions and estimates to be inaccurate and actual results or events to differ materially from those expressed in or implied by our forward-looking statements, including our financial guidance, are listed below. The realization of our forward-looking statements, including our ability to meet our financial guidance, essentially depends on our business performance which, in turn, is subject to many risks. Accordingly, readers are cautioned that any of the following risks could have a material adverse effect on our forward-looking statements. These risks include, but are not limited to:

- *the intensity of competitive activity, and the resulting impact on our ability to retain existing customers and attract new ones, as well as on our pricing strategies, financial results and operating metrics such as ARPU*
- *the level of technological substitution and the presence of alternative service providers, contributing to reduced utilization of traditional wireline voice services*
- *the adverse effect of new technology and increasing fragmentation in Bell TV's TV distribution market and Bell Media's TV and radio markets*
- *variability in subscriber acquisition and retention costs based on subscriber acquisitions, retention volumes, smartphone sales and handset discount levels*
- *regulatory initiatives and proceedings, government consultations and government positions that affect us and influence our business*
- *economic and financial market conditions, the level of consumer confidence and spending, and the demand for, and prices of, our products and services*
- *Bell Media's significant dependence on continued demand for advertising, and the potential adverse effect thereon from economic conditions, cyclical and seasonal variations and ratings/audience levels*
- *the complexity of our product offerings, pricing plans, promotions, technology platforms and billing systems*
- *our failure to satisfy customer expectations and build a low cost operational delivery model*
- *our failure to carry out wireline network evolution activities, and to meet network upgrade or deployment timelines within our capital intensity target*
- *our failure to maintain network operating performance in the context of significant increases in broadband demand and in the volume of wireless data-driven traffic*
- *our failure to anticipate and respond to technological change, upgrade our networks and rapidly offer new products and services*
- *our failure to implement or maintain, on a timely basis, effective IT systems, and the complexity and costs of our IT environment*
- *our inability to protect our data centres, electronic and physical records and the information stored therein*
- *employee retention and performance, and labour disruptions*
- *our failure to execute our strategic imperatives and business development plans in order to produce the expected benefits, including to continue to implement our targeted cost reduction initiatives*
- *ineffective change management resulting from restructurings and other corporate initiatives, and the failure to successfully integrate business acquisitions and existing business units*
- *pension obligation volatility and increased contributions to post-employment benefit plans*
- *events affecting the ability of third-party suppliers to provide to us, and our ability to purchase, critical products and services*

- *the quality of our network and customer equipment and the extent to which they may be subject to manufacturing defects*
- *events affecting the functionality of, and our ability to protect, test, maintain and replace, our networks, equipment and other facilities*
- *in-orbit risks of satellites used by Bell TV*
- *unfavourable resolution of legal proceedings and, in particular, class actions*
- *unfavourable changes in applicable laws*
- *our capital and other expenditure levels, financing and debt requirements and inability to access adequate sources of capital and generate sufficient cash flows from operations to meet our cash requirements and implement our business plan, as well as our inability to manage various credit, liquidity and market risks, and to cause our net debt leverage ratio to return within our net debt leverage ratio target range*
- *our inability to discontinue certain services as necessary to improve capital and operating efficiencies*
- *our failure to evolve practices and effectively monitor and control fraudulent activities*
- *the theft of our DTH satellite TV services*
- *copyright theft and other unauthorized use of our content*
- *higher taxes due to new taxes, higher tax rates or changes to tax laws, and our inability to predict the outcome of government audits*
- *health concerns about radio frequency emissions from wireless devices and equipment*
- *our inability to maintain customer service and our networks operational in the event of the occurrence of epidemics, pandemics and other health risks*
- *BCE's dependence on the ability of its subsidiaries, joint arrangements and other entities in which it has an interest to pay dividends or otherwise make distributions to it*
- *uncertainty as to whether dividends will be declared by BCE's board of directors or BCE's dividend policy will be maintained*
- *stock market volatility*
- *the failure to successfully integrate Bell Aliant into Bell*
- *the expected timing and completion of the proposed Bell Aliant note exchange transactions are subject to risks and uncertainties and there can be no certainty that the anticipated benefits will be realized.*

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. We encourage investors to also read BCE's 2013 Annual MD&A dated March 6, 2014 (included in the BCE 2013 Annual Report) and BCE's 2014 First, Second and Third Quarter MD&As dated May 5, 2014, August 6, 2014 and November 5, 2014 respectively, and BCE's news release dated November 6, 2014 announcing its financial results for the third quarter of 2014 for additional information with respect to certain of these and other assumptions and risks, filed by BCE with the Canadian provincial securities regulatory authorities (available at Sedar.com) and with the U.S. Securities and Exchange Commission (available at SEC.gov). These documents are also available at BCE.ca.

The terms "Adjusted EBITDA", "Adjusted EBITDA margin", "free cash flow" and "Adjusted EPS" used in this transcript are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other issuers. Beginning with Q2 2014, we reference Adjusted EBITDA and Adjusted EBITDA margin as non-GAAP financial measures. These terms replace the previously referenced non-GAAP financial measures EBITDA and EBITDA margin. Our definition of Adjusted EBITDA and Adjusted EBITDA margin are unchanged from our former definition of EBITDA and EBITDA margin respectively. Accordingly, this change in terminology has no impact on our reported financial results for prior periods. Refer to the section "Non-GAAP Financial Measures" in BCE's 2014 Third Quarter MD&A for more details.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the BCE's Third Quarter 2014 Results conference call. I would now like to turn the meeting over to Mr. Thane Fotopoulos. Please go ahead.

Thane Fotopoulos – Vice-president, IR

Thank you, Wayne, and good morning to everyone on the call and the webcast. With me here today as usual are George Cope, Bell's President and CEO, as well as Siim Vanaselja, our CFO. We released our third quarter results earlier this morning. All the usual information, including the news release, as well as the slide presentation for this call, are available on the BCE website.

However, before we begin, I would like to mention that today's presentation and remarks by both George and Siim will contain forward-looking statements that represent our expectations as of today and, accordingly, are subject to change. We do not undertake any obligation to update any forward-looking statements, except as may be required by Canadian securities laws. A number of assumptions were made by us in preparing these forward-looking statements which are subject to risk. Results may differ materially. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statement. For additional information on such risks and assumptions, please consult BCE's 2013 annual MD&A as updated in our Q1, Q2 and Q3 2014 MD&As, as well as our news release dated November 6, 2014, announcing our results for the third quarter. All of these are filed with the Canadian Securities Commission and with the SEC and also available on our corporate website.

So with that, George, over to you.

George Cope – President and CEO

Great, good morning, everyone. Thanks, Thane. Thanks, everyone, for joining us. BCE had an excellent quarter. I am pleased to report that Bell achieved the best combination of financial results and market share results in over a decade. Clearly, the long-term focus on our six strategic imperatives is driving results and paying dividends for our shareholders.

Bell Adjusted EBITDA growth of 3.4% and margin expansion to 39% drove 10.7% adjusted EPS growth. Accelerating Wireless revenue growth and improving market share results versus our largest wireless competitor produced industry-leading double-digit EBITDA growth at Bell Mobility. However, most importantly in the quarter was the strong broadband market share performance, which, combined with cost management, produced positive Wireline EBITDA one quarter ahead of our own internal expectations. Bell Media continued to grow market share, although financial results are clearly beginning to be impacted by the higher content cost. The strong overall financial results, combined with the Bell Aliant synergies, places the company in an excellent position to continue our consistent dividend growth story in 2015.

Let's take a closer look at the Wireless results on slide 5. Very pleased with the 91,000 postpaid net additions, as I mentioned, versus our largest wireless competitor. A very strong quarter from an ARPU perspective, up an industry-leading 5.9%, and really, what is driving that is the increased usage we are seeing on wireless devices that have converted from HSPA to LTE. We are, in fact, seeing a 52% increase in customer usage of data for those clients that have migrated from HSPA to LTE, and the positive for investors is only 40% of our base to date have converted to LTE so, clearly, that migration will help revenue growth over time.

Also, we think adding to our performance was in the middle of August when we, through some spectrum aggregation, increased the LTE speeds on our network by up to 45% across the entire country, and that increase in speed through the aggregation method that we pursued allowed for all current LTE devices to enjoy that additional speed versus our largest competitor, who launched something similar but only works on new LTE products. We think it positions us for increased usage across our current LTE base. Also, industry-wide, there was a recent report again confirming that the Canadian wireless industry beats both the US and UK in speed and reliability, and once again, from another source, confirming that Canadians do have access to the best wireless networks in the world.

Turning to slide 6, we had a very strong quarter on the residential side with positive RGU growth in the quarter, driven by excellent internet additions of 50,000, 62,000 Fibe TV additions and a reduction, significant reduction in our loss of local access lines of 26.8% year-over-year. In fact, we continue to see a slowing in NAS losses on the consumer side from the pull through of Fibe TV. So the strategy continues – expand the Fibe TV footprint, move the network closer and closer to the home and putting fiber to locations where it is cost effective and the expansion of that footprint, as I have mentioned every quarter, any market we launch, we turn positive RGUs, and as a result, we have enough footprint now that you can see in the quarter we are positive in the quarter and, of course, helped by the seasonality of the back-to-school marketplace.

Turning to slide 7, very pleased that the Bell Aliant transaction has closed. It increased our broadband growth, scale and operating efficiencies, and that can be seen by the significant net add numbers when you take the two organizations in the quarter. Seventy-five thousand IPTV net adds and 64,000 internet adds are big numbers in the Canadian marketplace, and the scale to broadband business we think will be important going forward.

Also, for those that may not recall, Bell Aliant did have a small regional wireless operation. That will be rolled into Bell Mobility. It does add 123,000 postpaid customers, $80 million in service revenue, on par to ARPU with our business but will, again, add to our EBITDA growth, EBITDA margins on the Wireless side next year, although small. The combination of Bell and Bell Aliant by the end of this year will have six million homes covered with IPTV footprint. Because of the leadership of Karen in Bell Aliant's territory with fiber, two million of the six million homes will have fiber already to them as we continue to market IPTV.

Another benefit to remind investors of the integration and acquisition is the improved efficiency of capital spend allocations. I mentioned it before, we will not be investing in duplicate billing systems going forward, and also, we will optimize where we direct our capital for fiber. In some markets, we have very strong satellite market share. In those markets, we will not be accelerating the fiber builds at the pace we would be in markets where the cable operator has strong market share. Finally, we are well on track to exceed our $100 million in combined pre-tax annual opex and capex synergies in 2015.

I think, strategically, I just want to mention to investors that we now have over 3,250,000 internet customers. We think this will be strategically important in the OTT world, particularly if certain content providers make a decision to not distribute their content to all broadband customers. We think that model gets challenged if you do not have access to everyone in the country, and particularly our broadband customer base.

Turning to our Media assets, our—Bell Media continued to lead the market in market share and saw growth in the English-to-French audience share between the ages of 25 and 54, obviously very important from an advertiser perspective. In the important fall season, the top five most-watched programs in the country were actually on CTV. It is the first time in 10 years that we had all top five programs and they had over three million viewers. We also in the quarter rolled out the new TSN lineup expansion of five national feeds, and you can see here on the visual the advantage of having the capability such as for the US Tennis Open, five different matches at the same time.

We extended our distribution agreement with HBO to 2018, and you have begun to hear, we will be launching a new streaming service with HBO content and other Bell Media content. That will be a streaming service but with authentication to TV. We think it is a fast and better way to monetize this investment by leveraging the excellent distributions that BDUs have in Canada and is a very cost effective way to get to all Canadians as quickly as possible. So as you hopefully saw yesterday, Telus has signed up and agreed to distribute this product, and we anticipate, because of the strength of this product, every BDU in the country will have an interest in the distribution of this as we roll it out. It will be a streaming service but with authentication, leveraging the strength of the BDUs in the country.

Also want to remind investors, we did finish the divestiture of the Astral assets. We did well on the sale of the 10 times EBITDA multiple and $766 million in proceeds, including dividends.

Our revenue mix continues to improve as growth services were up $163 million in the quarter, or 4.1% year-over-year. As a result of our strong results in the first three quarters, we now expect for the third consecutive year double-digit Wireless EBITDA growth, and that will lead the industry for the third consecutive year in EBITDA growth. Finally, we expect the combined Wireline business of Bell Aliant and Bell Canada to generate positive EBITDA growth going forward through into 2015.

With that, let me turn it over to Siim.

Siim Vanaselja – Executive Vice-President and CFO

Thanks, George, and good morning to everyone on the call. I will begin on slide 11.

The third quarter was a very strong quarter for us, with positive trends that I think position us well for the end of the year and for 2015. Service revenue growth at Bell was 2.2% this quarter. That was driven by growth services, which increased 3.7% year-over-year. This was led by our Wireless segment, which saw an acceleration in revenue growth. Wireline residential services also saw a fourth consecutive quarter of positive revenue growth, and Bell Media revenues were stable year-over-year.

Bell has consolidated Adjusted EBITDA increased 3.4% this quarter, with a 60 basis point improvement in margin to 39%. Higher Adjusted EBITDA drove 10.7% growth in Adjusted EPS to $0.83 per share from $0.75 per share in the third quarter of 2013 and an 11.6% increase in free cash flow which grew to $834 million this quarter. Our statutory EPS for the quarter was $0.77 per share, up $0.33 over last year, and that year-over-year increase was due to the charge we recorded in the third quarter last year for CRTC benefits incurred on the Astral acquisition.

Lastly, and consistent with our plan for the second half of the year, capital spending accelerated this quarter as we rolled out fiber to more homes and businesses, as we expanded our Fibe TV reach, increased our Wireless LTE network speeds by up to 45% and deployed 4G broadband mobile services to more rural communities and small towns across Canada. Overall, we believe our performance this quarter puts us in a great position for the fourth quarter and provides a very strong foundation for sustained growth in 2015.

I will now turn to some of the financial highlights for each of our operating segments. So starting in our Wireless segment, service revenue growth increased to 7%, driven by a greater mix of postpaid subscribers in our customer mix, strong data revenue growth and pricing discipline. Data revenues grew 24% this quarter. This, combined with increased smartphone penetration and higher rate plans, resulted in 5.9% increase in our blended ARPU, which is our strongest ARPU growth rate in more than seven years. A key highlight of the quarter was Wireless Adjusted EBITDA, which increased 10.9%, yielding a revenue flow through to Adjusted EBITDA of 70%.

Wireless posted a strong 1.6% point improvement in service margin to 46.6%. I think that underscores our disciplined focus on profitable postpaid subscriber acquisition and retention spending. With this performance, we have now led the industry in wireless Adjusted EBITDA growth in 11 out of the past 12 quarters. Lastly, Wireless Adjusted EBITDA less capex provided a strong contribution to overall free cash flow increasing just under 10%. So as we head into the seasonally important fourth quarter, our Wireless momentum remains very strong.

Moving to the Wireline segment on slide 13, we have seen steady improvement throughout the course of the year. This quarter, we achieved a bit of a milestone, I would say, in delivering positive overall Wireline service revenue growth, positive Adjusted EBITDA growth and, as George covered, positive residential RGU growth. Residential Wireline revenue growth of 3.4% was fueled by higher ARPU across our consumer services. TV and internet combined delivered 7.5% higher revenues year-over-year, while the decline in voice revenues continues to slow, with fewer residential NAS line losses over last year.

In business Wireline, the rate of year-over-year revenue and EBITDA decline in the third quarter was stable compared to the previous quarters. With our improved mix of Wireline growth services, Wireline Adjusted EBITDA increased 1%, and Adjusted EBITDA margin in Wireline improved 60 basis points to bring our Wireline margin to 37.8%. The margin improvement also reflects lower year-over-year product sales, which are low margin. For the fourth quarter, we expect our Wireline segment to continue to show year-over-year improvement, delivering positive overall revenue and Adjusted EBITDA growth.

Turning to slide 14, Bell Media revenues in the third quarter were largely flat year-over-year. Astral is now fully reflected in Bell Media's year-over-year results. Subscriber revenues were down 4.4% on specialty TV rate increases and higher revenue generated—sorry, subscriber revenues were up 4.4%. As I was about to say, that was on specialty TV rate increases and higher revenue generated from our new TV Everywhere Go products. It is advertising revenues that were down 3.5% in the quarter, as a result of declines in conventional and sports specialty TV. The advertising market remains soft across the industry. Advertising demand in the third quarter was additionally impacted by spending directed to the broadcast of World Cup soccer. I would note that the rate of Bell Media's advertising revenue decline did improve sequentially in the third quarter over the second quarter of 2014, reflecting the strength of CTV's programming lineup for the current season and higher average viewership levels.

Bell Media Adjusted EBITDA was down 8.5% in the third quarter, due to the higher sports broadcast rights costs, again, in line with our expectations. And we expect that increased content costs for sports broadcasting and the continued soft advertising market will continue to pressure Bell Media's performance in the fourth quarter.

On Adjusted EPS on slide 17, we have provided the key components of that. Adjusted EPS was $0.83 per share this quarter, up 10.7% year-over-year. Higher EBITDA drove $0.06 of EPS growth this quarter. Depreciation and amortization expense for the quarter increased $0.01 over last year on a higher depreciable capital asset base.

Net interest expense decreased year-over-year, reflecting the early redemption of our series M-20 debentures and a lower overall average cost of debt for Bell. I am pleased to say that with the recent issuance of $1.25 billion in seven-year and 30-year Bell debentures, which we did in the quarter, our average after-tax cost of debt has now decreased to 3.4%, with an average term to maturity of about 10 years.

We also recognized the mark-to-market loss totaling $0.02 per share this quarter on equity derivative contracts resulting from a decrease in BCE's public share price at the end of the quarter. This was offset by a $0.02 foreign exchange gain on currency hedges which we entered into to manage the financial exposure on our US dollar capital expenditures. And lastly, tax adjustments contributed $0.02 of EPS in the quarter. That is the same amount as in the third quarter of 2013 and it resulted in an effective tax rate of 25.5% versus our statutory tax rate of about 26.5% for 2014, and I would say that there is no further tax adjustments that we are anticipating for the fourth quarter.

Let us turn to cash flow. Free cash flow generation of $834 million in the quarter was up 11.6% year-over-year, again, on track with our plan. This reflected Adjusted EBITDA growth and an improvement in our working capital position, offset partly by higher planned capital spending, as I discussed, and increased cash taxes consistent with our guidance assumption. Cash interest payments were lower, due, as I mentioned, to the early debt redemption and our lower cost of debt. We ended the quarter with over $1.4 billion of cash on the balance sheet, which included the proceeds of our recent debt offering. We continue to maintain significant financial flexibility, with access to an additional $3 billion of committed lines of liquidity.

As George said, the Bell Aliant privatization was completed at the end of October. You will have seen that, on October 20th, we initiated a debt exchange offer to the holders of Bell Aliant notes for the exchange of those notes for an equivalent principal amount of new notes which would be issued by Bell Canada. The proposed note exchange is part of BCE's objective to achieve a simplified capital structure and to enhance the administrative efficiencies by concentrating all our public debt into Bell as a single issuer. Bell Aliant bondholders meetings are scheduled for November 14th to vote on those note exchange offers.

So in closing, we have now seen three quarters of good growth in consolidated financial performance, and we are tracking to deliver on all the guidance targets that we provided for the full 2014 year. There is no fundamental changes in our outlook. We remain competitively well positioned. Our performance momentum is growing in our Wireless and Wireline segments as we enter the fourth quarter. So we expect no impact to 2014 financial guidance from the Bell Aliant privatization.

With the full ownership of Bell Aliant as of November 1st, BCE's free cash flow will include 100% of Bell Aliant's free cash flow rather than the cash dividends that we would otherwise have received from Bell Aliant. That difference is very nominal. There will be no changes to our segmented reporting for the fourth quarter, but starting in the first quarter of 2015, we will begin to reflect Bell Aliant's operating results within our respective Wireline and Wireless segments and, accordingly, Bell Aliant will cease to be a standalone reporting segment of BCE; and we expect Bell Aliant to become accretive to our earnings and free cash flow in 2015, which will support BCE's strategic imperatives and our dividend growth model.

On slide 18, you should note that, with the Bell Aliant privatization transaction now completed, the non-controlling interest of BCE is expected to be approximately $60 million lower for the full year, reflecting our 100% ownership of Bell Aliant. As well though, the average number of outstanding BCE common shares for 2014 will increase to approximately 794 million shares due to the issuance of 61 million new BCE common shares as part of the consideration on the Bell Aliant privatization. So those are really offsetting impacts, and as a result, our adjusted EPS guidance range for 2014 remains unchanged.

So with that, I will turn the call back over to Thane and the Operator to begin the Q&A part of the call.

Thane Fotopoulos – Vice-president, IR

Great, thanks, Siim. So we are ready to begin the Q&A session, so Wayne, can you please explain the polling instructions to the participants?

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the telephone lines. If you have a question and are using a speakerphone, please pick up your handset before making your selection. If you have a question, please press star 1 on your telephone keypad. You may at all times cancel your question by pressing the pound key. Please press star 1 at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

Our first question is from Phillip Huang from Barclays. Please go ahead.

Phillip Huang – Barclays – Analyst

Yes, thank you. Good morning, guys, and congrats on the solid results. I had—first question on Wireline. So with EBITDA turning the corner this quarter and margin expanding again, what would be a sustainable long-term assumption for Wireline margins, particularly as we take the added scale from Bell Aliant into consideration now?

And then a second question on Wireless; was wondering if you guys could provide us any sort of stats on the percentage of your postpaid subscribers that are now on LTE, and whether there are any stats that you might have on data usage for LTE versus non-LTE subscribers? I am just trying to assess the average lift to ARPU from the move towards LTE. Thanks.

George Cope – President and CEO

Yeah, happy to do that. Let me deal with the LTE, first of all. About 40% of our postpaid base is currently on LTE, so that is the first. In terms of usage, I mentioned we are seeing about a 52% increase in customers who migrate from HSPA to LTE. I think we are seeing about 1.4 gigabits of data per month versus 923 megabits of what we were seeing on HSPA, so about a—you can see the math there. And I think about, roughly about 35% of the traffic is video on our LTE data traffic, and so what this is doing, it is driving increased usage, so it is not pricing in Canada that is moving ARPU; it is obviously the products do more than they did before, and that is what is driving the ARPU.

On the Wireline side, our margin will expand next year because of the integration of Bell Aliant and Bell Wireline business, but I—what we would probably prefer to do is when we come back to guidance, there will probably be some implied margin in that for you to be able to take a look at. But I do not want to quote a number, nor does Siim, this morning until we get the two companies together and come back next year with that, but other than to say that, clearly, with the synergies and some momentum, we are comfortable talking about having positive EBITDA on Wireline next year, but the range of that number we will come back to in February.

Phillip Huang – Barclays – Analyst

Got it, and fair to say that the—so it sounds like there is potential upside to the $100 million target in terms of synergies to Bell Aliant, is that fair?

George Cope – President and CEO

There will not be a downside to it.

Phillip Huang – Barclays – Analyst

Okay. Thanks very much.

Operator

Thank you. The following question is from Richard Choe from J.P. Morgan. Please go ahead.

Richard Choe – J.P. Morgan – Analyst

Great, thank you. Just to follow up on that question, are you seeing any significant ARPU pull through when you see the customers go from LTE—or HSPA to LTE? And then also, in terms of service revenue accelerating in the quarter, fourth quarter last year, was it—looks like it is an easy comp, could we say accelerate through this year, and what could we expect going forward?

George Cope – President and CEO

Yeah, so I want to be a little careful on guidance. We are really obviously pleased with the quarter. We are clearly seeing—by those usage data, assuming that the products are priced equivalent, HSPA/LTE, we are clearly seeing a higher ARPU. Now, in fairness of that, as analysts would know, the early adopters of the newest technology can also sometimes be the heaviest users, so as the entire base migrates, you probably would not see that pace of growth. But having said that, with the enhanced speed on LTE and the quality of video, which quite frankly is almost unbelievable in terms of the quality you are seeing that the people can get, I think we are going to see the increased usage, and so we have seen ARPU improve year-over-year. We would expect an improvement again in Q4 over last year's Q4, but we will wait for 2015 when we give guidance.

Richard Choe – J.P. Morgan – Analyst

Great, thank you.

Operator

Thank you. The following question is from Dvai Ghose from Canaccord Genuity. Please go ahead.

Dvai Ghose – Canaccord Genuity – Analyst

Yeah, thanks very much. George, lots of positives in the quarter. Let me talk about the one you have highlighted, which was the really strong broadband growth. If you look across the board, your broadband net additions were up 39%, Quebecor's were up 31%, Telus was up 16%, Bell Aliant's were up 27%. What is driving all this massive growth, because I thought this was a relatively highly penetrated segment?

George Cope – President and CEO

Yeah, it is—Dvai, thanks for the comments. A couple things. You know, clearly, we are seeing, when we pull a customer on Fibe TV, as is our Bell Aliant when they get a customer on their fiber TV product, we get a pull through of internet, and that has been the strategy. So from our perspective, I think you will see that we probably moved the market share needle in our quarter in all of our regions. I would say the results this morning in the Province of Quebec between ourselves and Videotron I think does show there must be clearly some strong growth overall, and in the TV business, something tells me we may see, you know, a—where there is some cord shaving everywhere, there is cord cutting, probably much less cord cutting in the Province of

Quebec; maybe that is what is driving the combined RGU numbers for the companies. But on the broadband, I think in our case, the numbers should show some market share, I think, Dvai.

Dvai Ghose – Canaccord Genuity – Analyst

Yeah, and I was wondering if you have an estimate, because clearly, it would appear that you gained market share from Rogers, you know, the Quebecor numbers were strong, as you alluded to, but Rogers' and, you know, were quite flat in terms of their internet additions. Do you have any sort of market share estimate?

George Cope – President and CEO

No, other than to say that we are as pleased with Quebec results as we are in Ontario, and of course, we compete with more than one carrier than those two carriers in the footprint. I mean, there is a third one as well that we compete with, and this morning's numbers on the two make us feel better about the whole Province of Quebec, quite frankly, because we probably would have thought with our results, they might have been a little bit different. So, clearly there is additive from household growth going on in the province.

Dvai Ghose – Canaccord Genuity – Analyst

That is fair, and one last one on the same topic, if I may. The CRTC is about to launch its third review of the fall, which is on broadband. Are you expecting anything meaningful there? I mean, I find it interesting that some of your cable competitors want cost-based access to your wireless networks. Do you think that they will have to offer cost-based access to their broadband networks?

George Cope – President and CEO

Well, I mean that—the hearing that is coming up, it is a wholesale review on the wireline side. You know, the position on that is in a number of other geographies around the world, when people have taken shareholders capital risk and built fiber right to the home, that network, of course, has been proprietary for the network company that has invested the shareholders' money in that. So at the hearing, the discussion will be whether or not wholesale access to fiber to the home is on the agenda or not, and our position will be very clear that if other people want to build fiber to the home, go right ahead, but we are clearly building our network for our customers and our shareholders, and that will be our position, and that is consistent with the regulatory regime in the US, and we are going to look for, hopefully, to see that as the consistent regulatory regime in Canada when we build fiber to homes.

Dvai Ghose – Canaccord Genuity – Analyst

Thanks a lot, appreciate it.

Operator

Thank you. The following question is from Jeffrey Fan from Scotiabank. Please go ahead.

Jeffrey Fan – Scotiabank – Analyst

Thanks, good morning, and again, good quarter. A couple of questions, one on the Wireline and, again, follow through on the broadband. George, you mentioned really good attach rates from Fibe TV onto to the internet. I am just wondering, looking ahead, do you think Fibe TV is really fundamental to pulling through the Fibe internet, or is there a point in time where you think the Fibe internet service can stand alone to still continue to show that kind of share gain?

And then the second question is on wireless capex intensity. You guys are doing a really good job of really just managing that at 10% capex intensity year to date. Your partner is seeing a bit of a capex intensity increase; part of it may be due to wireless. I am just wondering, is there anything that you can talk about structurally, and in a network sharing deal, why your partner is seeing an increase? Is it the relative spectrum contribution you bring to the sharing? Is there anything that you think you are doing differently that can help us understand why that may be different? Thanks.

George Cope – President and CEO

Yeah, okay, let me answer the second one first. So on the Wireless side, I do not want to comment on our competitors' capex, other than I would say our footprint growth that we are building out nationally got a proportionately higher rural component for 700 MHz, whereas our—the network we utilize has been ahead on that build because it has done more urban with some different spectrum in order to access for LTE aggregation. So I would expect that to normalize out, it is what I expect, and we have normally talked about 10% to 12% capital intensity and, you know, our goal next year is to finish, all the rural markets as much as we can with 700 MHz. So I would anticipate—you might see a bump in ours, although we will keep our overall capital intensity in line with what the street expects. I cannot comment on the other carrier, other than that may be the difference on that one, and I am sorry, the first question was?

Oh, yes, and look, on our strategy, you know, our strategy will be to continue to execute the IPTV footprint to as much of the geography as we can afford to do and then continue to move closer and closer to the home with fiber, with, you know, significant amount of fiber overlay where we have aerial plant and continue to execute on that basis. We think the internet product stands on its own, but it is very clear that our TV product is the leader in the marketplace, differentiated what customers expect from an IP application and with the products we are going to roll out on the streaming side combined with it, we are going to continue to compete aggressively for both the video and the broadband customer. So we think it continues to be attached.

Jeffrey Fan – Scotiabank – Analyst

Okay, thanks.

Operator

Thank you. The following question is from Greg MacDonald from Macquarie Research. Please go ahead.

Greg MacDonald – Macquarie Research – Analyst

Thanks, and good morning, guys. So we have seen a number of players in the industry; some in the US, some in Canada, show weaker industry results. For TV advertising on the media side, your media seems fine on the revenue line, flattish year over year. I am wondering if you could give us a little more detail on whether this is a tale of a stronger TSN relative to the CTV and specialty channels in terms of ad trends, or is it relatively evenly based if—are you bucking the trend, or are you not, I guess is what I am trying to get at?

George Cope – President and CEO

Well, we know we are taking share. We know—we think part of it was clearly the strong fall lineup we have had on CTV, where, for the first time in 10 years, all top five shows that Canadians are viewing are on our network, and the viewership numbers were high. So, you know, if Kevin were here with me, he would tell you that the ad market is not an easy market. We are taking market share, and the challenge for us in the media business into 2015 we think probably is driven more by the content cost that we have seen rise on the sports side, and also, you know, for our shareholders on the line and the investors, we have made a strategic decision to invest in the HBO library from a streaming perspective; and that is a conscious strategic investment we will make which will have an impact on the Media businesses' EBITDA next year, but absolutely is the right thing to do strategically because it is what Canadians are telling us they want to view and how they want to view, and we want to adjust to that model. So we are making an investment in that content side, and that revenue, of course, will take a while to generate. One of the reasons we are strategically have made the decision to distribute it through the BDUs because of their excellent access to customers and the speed at which we think they can roll out that product effectively in Canada.

Greg MacDonald – Macquarie Research – Analyst

Can I ask a quick follow-on, George? There is a lot of debate right now on whether we are actually seeing a material shift of ad spending toward digital or not. I can appreciate the share gains that you have made, but CTV in particular is a product where you get new product every year, right? Are you seeing that shift in ad spend? Is that a risk for you, or do you not consider that a big risk yet?

George Cope – President and CEO

No, we definitely—you know, digital spend, ad spend shift in our industry, I mean, even within Bell, we have ad spend shifts, but it was certainly not material in the quarter. But in a business that is trying to grow and highly competitive, a point or one point is—can clearly impact us. So that will continue to be a headwind. You know, our job is to try to monetize digital revenue now in the ad space through our Media assets, and that is some of the key things that Kevin Crull, our President of Bell Media, is focused on and across the multiple platforms and screens as we go forward.

Greg MacDonald – Macquarie Research – Analyst

Okay. Thanks a lot.

Operator

Thank you. The following question is from Maher Yaghi from Desjardins. Please go ahead.

Maher Yaghi – Desjardins Securities – Analyst

Yes, thank you for taking my question. Very nice results, guys. Just wanted to ask you, I mean over the last two, three years, we have seen TV additions surpass those of internet additions, and that reverted this quarter. I was wondering if there were any one-time—you mentioned that wholesale additions are happening, helping you in the quarter on the internet side, but can you quantify that and discuss a little bit what caused that change in trajectory, because I always thought that TV is really where the selling point is with Fibe TV and internet was an add-on.

George Cope – President and CEO

Well, yeah, you got to remember, we did 62,000 Fibe TV net adds, and 50,000 internet adds, so Fibe still pulled through, but our net TV numbers, of course, are impacted by the satellite reduction that we are seeing and the migrations to satellite to our IPTV continue to be about 15% to 18% of our net adds are coming off of our own satellite business. We are seeing, and we will have more clarity on that when we put Bell and Bell Aliant together, you know, how much of the 14,000, or so IPTV subs that Bell Aliant added in the quarter were migrated from satellite, and we will be able to share some of that next year. So that is why you have seen the difference in the two numbers, but if you kind of just pull out satellite, Fibe TV did outgrow internet net adds.

Maher Yaghi – Desjardins Securities – Analyst

And just a follow-up on that, when you look at the success you are having on the internet side with Fibe, do you feel you are—you could be well helped by maybe increasing the penetration, or the deployment of fiber? Are there potential to—operationally, I mean not financially, but operationally, could you deploy fiber faster in your marketplace so that you can garner more of that market share gains that you are having right now in more areas of your territory?

George Cope – President and CEO

Yeah, absolutely. One of the reasons for the consolidation of Bell Aliant and Bell—and Karen's—in the results we have seen, and we will talk about it in 2015, but investors can expect us to accelerate fiber, the pace of fiber in our Ontario/Quebec footprints. In particular, we have strong aerial plants, the economics are compelling, and we will do that all within our capex window next year of the same consistency that you have seen us run on the last five, six years. So we will get in the guidance, but I also want to make sure if I say that, we do not have people going, "Well, if there is a big capital number next year that is not in our numbers and it is," but part of that is—you know, Bell Aliant had finished its fiber build, so they are really doing a demand capital expenditures next year based on subscribers, so we can reallocate that capital and deploy it in Ontario and Quebec for fiber, given that they had matured out on their fiber footprint. So yes, we think of accelerating that—we see it in the recent report where, you know, even on the OTT side, the largest OTT provider in the world ranked our broadband network the best in the country, and we think that is driving some market share.

Maher Yaghi – Desjardins Securities – Analyst

That is helpful, and just one last question on the margins and Wireline, you said that beat your expectation in the quarter in terms of growth. Is there any, again, one-time items there that helped on the EBITDA line, and how sustainable is that sequentially going into the fourth quarter?

George Cope – President and CEO

Yeah, so there is nothing in the quarter that was one-time at all, and as we mentioned, in the fourth quarter, we anticipate positive Wireline EBITDA growth. But also caution investors we have also guided towards our guidance for the year so that analysts can take our guidance, will know we will be in that range and know that Wireline will be positive. We say we expect Wireless for the year to be double-digit, and that Media will be challenged with the content price increases.

Maher Yaghi – Desjardins Securities – Analyst

Thank you.

Operator

Thank you. The following question is from Drew McReynolds from RBC Capital Markets. Please go ahead.

Drew McReynolds – RBC Capital Markets – Analyst

Yes, thanks very much, and again, congrats on a great quarter. Two questions from me, George. First, just with respect to the issue of wireless industry activity, you know, we have seen better net adds from you and Telus this quarter, could be at the expense of Rogers, of course, but now we have gotten the iPhone and a couple of iconic devices back into the market. Just wondering if you are seeing any uptick in industry activity, or is it too early just given where we are relative to Christmas?

And then the second question, big picture with respect to TV Everywhere, we have seen obviously a couple of OTT standalone services be launched. It is great to see your new streaming service to be launched, but it sounds like that will be part of TV Everywhere. I am wondering if the industry overall is still on the same page with respect to TV Everywhere and in protecting the current TV ecosystem, or are we seeing a little bit of splintering in terms of strategy here?

George Cope – President and CEO

Yeah, well, I will let people assess strategy and I will come back to that. On the Wireless side, you know, I think we do have new handsets for the quarter. I think gross adds for the industry—people on the line will know better than I do, but I think on postpaid, they were a little better than what we had seen in the previous quarters, and I think part of that is the new handsets. I think we will see some of that, but we will have to see in the fourth quarter how it evolves. It is too early yet on the fourth quarter at all to have a feel for that. Activities, you know, competitive intensity is always high, so that has not slowed at all in the marketplace. So, you know, hopefully those new devices will help create some momentum in the fourth quarter but it is too early to tell.

And on our new streaming service, it will be available over the top, but it will be available with authentication because, you know, our plan at the moment is not go around our distribution partners. As I said, you know, they are our competitors on one side, but they are excellent distributors on another and we think it is a very quick way to get to the marketplace, and you know, we—the product will be unfolded shortly. People will see a content that we believe Canadians will really want, and what we are learning is the way people view content is changing and which pipe it is over, in the end, should be irrelevant and so we are going to leverage the assets that our BDU distributors have and put this product in the marketplace that way. You will have to let other competitors respond to how they are going to pursue the marketplace, but we think it is core to what we still want to do. You know, we are seeing TV growth in our Company. I mean, we—you know, those are big TV numbers between ourselves and Bell Aliant in the quarter at 75,000 TV customers, so across the country, with the right product, Canadians are buying TV services at numbers we have never seen before.

Drew McReynolds – RBC Capital Markets – Analyst

Okay, thanks, George, and maybe just a very quick one for Siim. Just, could you just update us whether, you know, you see any issue just on the pension solvency, just with the backup in bond yields year-to-date, and just as you kind of look into next year and maybe a better kind of answer—or a better question for Glen, but as you kind of look at your priority uses of free cash flow, you will clearly pay down some debt but just thoughts on an eventual return to a buyback, any thoughts there? Thanks.

Siim Vanaselja – Executive Vice-President and CFO

It is a timely question because we have continued to see interest rates, discount rates decline through the course of this year. I would say that with regard to the Bell Canada defined benefit plans, we continue to be in a very healthy solvency position, over 90%. With the acquisition of Bell Aliant, we also have to consider the valuation position of their plans. Bell Aliant has relied significantly on letters of credit for their funding. We do think that is inefficient, so we are giving some consideration to making a further voluntary advance contribution before the end of the year. We have not made any decision on that. If we do, it would be principally directed, as I say, towards bolstering the valuation of Bell Aliant's plans, and it certainly would not be of the magnitude of the special contributions that we have made in the past to the Bell Canada plans.

Then with respect to normal issuer bids, that is not something that we are contemplating now. As you know, with the privatization of Bell Aliant, our leverage ratio is slightly above the top end of the range that we would like to be—that we would like to see it in and, therefore, you know, our focus, at least for the next little while, is going to be towards seeing our leverage ratio come down, and you know, once that happens, we will turn our attention to opportunities for issuer bids again.

Drew McReynolds – RBC Capital Markets – Analyst

Thanks very much. Appreciate it.

Operator

Thank you. The following question is from Tim Casey from BMO. Please go ahead.

Tim Casey – BMO Capital Markets – Analyst

Thanks. George, could you talk a little bit about what is going on in the wireless market? There is obviously been leadership changes at your competitors, and I guess what I am asking is how much of the gains do you think are market-driven and how much do you think is reflective of your outperformance? And on your imminent OTT product, do you think of that more as a growth initiative or more of as a defensive initiative to protect your core businesses, including the bundle and your media rights? Thanks.

George Cope – President and CEO

Well, on the OTT side, we think it is a customer demand issue. You know, we think customers are asking to view media content in a different way and we are going to address that with a product that we are absolutely convinced will be, frankly, world-leading in terms of the type of content that will be available and meet the requirements that Canadians asked. So at first though, it is an investment in the beginning, and if we are—our instincts are right, it is going to be a product that people want from a consumption perspective. Ultimately, we are doing it to obviously drive the financials. Strategically, though, we think it will enhance the TV product of all the BDUs in the country and also for those that want to stream the product over the top, they will have the capability to do that but with a subscription, obviously, to a TV overall service.

You know, on the wireless side, you know, from our perspective, it is really our focus on distribution and network. The significant improvements we have seen in our service metrics on the wireless side and the cost, and so it is a competitive game, and you know, from our perspective, we will just continue to drive our own execution and let other people's results speak for themselves.

Tim Casey – BMO Capital Markets – Analyst

Thank you.

Operator

Thank you. The following question is from Glen Campbell from Bank of America Merrill Lynch. Please go ahead.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Yes, thanks very much. I wanted to revisit the two big positives on the quarter in terms of operating metrics, the strength in Wireless, particularly the data, and then the broadband connection. So on the Wireless, George, I am thinking about customers who were getting LTE handsets. I mean, they may be asked to step up to a new plan with a bigger bucket. They might be going onto shared plans, both of which would give them more data to use and they have now got a better network to use video. As you look at your customer base, do you think it is just demand-driven in terms of, let us say, the ability is video, or can we attribute some of this growth to the fact that these customers who have LTE devices are probably on plans that make it, you know, essentially zero incremental cost beyond their bucket? Do you have a sense of what is driving it there?

George Cope – President and CEO

Yeah, well, use is number one, without a doubt because the stats are—you know, we just revealed them this morning in terms of the differences we are seeing, and I am assuming the other carriers in Canada are seeing that. Secondly, you know, I do not want to dismiss the movement from the three to the two-year contract, of course, you know, had an impact and having to recover some of that impact of subsidizing the phone over two years instead of over three years because the subsidy amount stayed the same. So as a result, there is certainly been more pricing discipline in our organization around making sure, as customers upgrade to shorter-term contracts, we have got to recover that subsidy in 24 months instead of 36 months, so clearly, that is part of it as well in the marketplace. But the—when we look at it, the proportion of it is the usage.

Then finally, if you look at our strategy the last six to seven years, you know, there was a time not many years ago where we were not getting necessarily the leading customer base because our handset lineup and network was not where it is today, and we think we are now competing head-to-head with, you know, the other competitors head-on and customers are choosing, who are heavy users, to migrate back to Bell, and that is having an impact on our usage as well.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Okay, thanks, and then those very strong broadband net adds, are you seeing a shift in terms of demand so that you are now getting traction in the small business segment? In other words, is some of the strength here because of stronger net adds there, or is this, you know, almost entirely coming on your residential side?

George Cope – President and CEO

I would say, you know, our SMB businesses has been stable this year, but this is clearly being driven by the Fibe TV pull through.

Glen Campbell – Bank of America Merrill Lynch – Analyst

Okay, great. Thanks very much.

George Cope – President and CEO

Thanks, Glen.

Operator

Thank you. The following question is from Vince Valentini from TD securities. Please go ahead.

Vince Valentini – TD Securities – Analyst

Yeah, thanks very much. Sticking with the Wireless ARPU, which obviously is very impressive, can you talk about how many of the customers have switched over to the two-year plans that may have seen a bit of a rate bump, or alternatively, how many of your customers are still on three-year plans?

George Cope – President and CEO

Just do not have it at our fingertips. You know, it is probably somewhere between 35% and 45% would have converted, you know, to the two-year plan, but that is a really rough number and, you know, Thane is certainly happy to have a conversation with you after. It is just not a number that is at our fingertips.

Vince Valentini – TD Securities – Analyst

No problem.

George Cope – President and CEO

But clearly, that is part of what is driving it as well, you know, and I think geography focus for us. As you know, we were stronger historically in, you know, in the Province of Quebec and also on the East Coast and the Bell Aliant footprint, and people know we have been trying to execute better in Western Canada, and there are some economics, strong economics there, as people know, and probably, you know, there is a little bit of share that we are clearly moving the needle against one of our larger competitors, and that is helping.

Vince Valentini – TD Securities – Analyst

You just preempted my part B question there, George, but maybe I will elaborate a little bit on it. So you have been talking about that, you know, indexing of your customer base for some time and sort of had more prepaid a few years ago, you had maybe less exposure in the corporate market and certainly, the regional disparity. Your ARPU now is ahead of Rogers, the gap with Telus is pretty narrow now. Do you think that sort of re-indexing has largely played out, or do you still think there is more catch-up for your—for Bell?

George Cope – President and CEO

More catch-up to do. We continue to work at—and, you know, particularly, as I said, outside of Quebec, we are fine, highly competitive marketplace; East Coast, we are fine but that is where we have had, you know, strong market share, and so our focus for us to move the market share needle, that has to be almost exactly the opposite of probably what some of our other competitors are trying to do against us. It just happens to be proportionately the higher ARPU markets are the ones where we need to proportionately focus more, and we continue to. It is not dramatic moves but, as the analysts would know, you know, as you move that just slightly, it does help on the accretion of ARPU.

Vince Valentini – TD Securities – Analyst

Okay. Thanks.

George Cope – President and CEO

Thank you.

Thane Fotopoulos – Vice-president, IR

We have time for one quick last question.

Operator

Thank you. The last question is from Rob Goff from Euro Pacific. Please go ahead.

Rob Goff – Euro Pacific Canada – Analyst

Good morning and thank you very much for taking my question. It would be a further question on the Wireless. Could you talk to the adoption and your view of big bucket shared data plans on wireless, and what that is doing for yourself in the marketplace?

George Cope – President and CEO

You know, Rob, I apologize, I do not really have something at my fingertips on that. I know in the marketplace, we have had to be competitive with that, particularly as people start to move towards some of the share plans, but you know what, I apologize, I do not have a lot of colour I can give you on that off the top of my head.

Rob Goff – Euro Pacific Canada – Analyst

Okay, thanks, George, and perhaps, are tablets becoming a bit of a factor in Canada, catching up to the US?

George Cope – President and CEO

Very small still. There are some small installment plans that you are seeing in Canada, and I think we are all trying to figure out, okay, can we make that happen, migrate some additional usage with the LTE pads, and so there is a little bit in the marketplace but clearly not at the scale of some of what we are seeing out of the US.

Rob Goff – Euro Pacific Canada – Analyst

Okay, that is great. Thank you very much and good quarter.

George Cope – President and CEO

Thanks, Rob.

Thane Fotopoulos – Vice-president, IR

Okay, so great. Thank you so much this morning for your participation. I will be available for any follow-ups and clarifications throughout the day, so thanks again and have a great day.

Operator

Thank you. That concludes today’s conference call. Please disconnect your lines at this time and we thank you for your participation.